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SUBJECT: TURKEY: ADVANCING BYPASSES AND IRAQ GAS/OIL

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¶1. (SBU) SUMMARY: Turkish public and private sector officials are eager to move forward on consideration of Iraqi gas for export to and via Turkey. The GOT is ready to discuss scheduling the second meeting of the Iraq Gas Working Group, but expects to receive a draft from the USG on conclusions and next steps from the first meeting in Istanbul March 9. The Turkey Oil and Gas Exposition 2007 generated lots of enthusiasm for Turkey's aspirations as an energy hub and southern gas corridor to Europe. End Summary.

Iraq Gas Meeting - Waiting for a Draft from the U.S.

¶2. (SBU) In a March 30 meeting, Foreign Ministry Deputy Director General Vural Altay said he was satisfied with the March 9 meeting in Istanbul of Iraqi, Turkish, and U.S. officials to discuss Turkey's potential role helping develop Iraq's natural gas reserves for domestic consumption and potential export. He looked forward to scheduling a next meeting, hoping for larger Iraqi participation, and asked for the U.S. to provide the promised paper of conclusions and next steps. Altay expressed optimism that the hydrocarbon law would be passed in the Iraqi parliament in May and thought this might open the way for further discussions.

Quiet Progress on Oil PSA's in Northern Iraq

¶3. (SBU) Speaking at the Turkey Oil and Gas Exposition (TUROGE) March 28 in Ankara, Genel Enerji General Manager Orhan Duran also expressed optimism about passage of the hydrocarbon law. In a subsequent private meeting, the holder of the most advanced PSA in Northern Iraq was much more cautious, noting that in addition to the law itself, the Iraqi legislature would have to approve annexes and separate laws for revenue-sharing, restructuring the Iraqi National Oil Company, and establishing the Federal Oil and Gas Council. Duran noted that there were still lots of opportunities for disagreement and delay. If the law is passed, he expects that there will be a bidding round that would draw interest from major oil companies. Duran said that Shell, Statoil, OMV, and others were quietly holding talks with the KRG and were poised to move forward. While proceeding on development of two wells each with production potential of 25,000 bpd, Duran admitted that Genel's Taq Taq Operating Company (TTOPCO), in partnership with Canadian Addax, faces risk on both the hydrocarbon law and establishment of egress for export of oil.

¶4. (SBU) Duran said that under the new law there would be a review of the KRG's existing contracts. Given that key Iraqi officials had participated in the original PSA signed in 2002, former Oil Minister Thadban had approved the contract in 2004, and the PSA was revised in November 2006, Duran was confident that TTOPCO was well positioned. Moreover, he said that the PSA authorized export via Turkey and there were advanced discussions for potential pipelines north. Duran noted that Norwegian DNO was the second most advanced PSA operator, adding that their field was very close to the Turkish border. He identified Petoil-Prime (Turkish and American, respectively) as third in project advancement, but suggested that they may be targeting "flipping" (selling) its project.

¶5. (SBU) On Iraqi gas, Duran noted significant interest from Turkey in the first gas agreement in 1995, involving ENI, Gaz de France, BOTAS, TPAO, and Tekfen, before Shell subsequently joined. Duran lamented that subsequent progress on Blue Stream from Russia and the new pipeline from Iran caused Turkey to be over-subscribed for gas and interest in developing Iraqi gas languished in advance of the Iraq war. He was excited about relaunching these projects, and he referred to the Iraq gas meeting in Istanbul in his remarks at the TUROGE.

Southern Gas Corridor to Europe

¶6. (SBU) At the MFA, DDG Vural Altay expressed hope that there would be follow-up from the meeting on the "southern gas corridor" at the IEA in Paris. He said that there was discussion on setting up the next meeting in Ashkabat to focus attention on the renewed potential for Turkmenistan as a source. Altay expected that Azeri Shah Deniz gas would soon come to Turkey and he anticipated first shipment of Azeri gas to Greece in July via the

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Turkey-Greece-Interconnector. He emphasized that Turkey would continue to be a reliable corridor to Europe. Altay was supportive of the USG TDA funded gas transit orientation visit for an inter-agency group of Turkish officials, including the regulator EMRA.

Bosphorus Bypasses - Who Will Be First?

¶7. (SBU) Echoing published statements by Energy Minister Guler at TUROGE, Altay said that the GOT's preferred Samsun-Ceyhan Bosphorus bypass had garnered 70% throughput commitments, but was unable to offer details. In his TUROGE speech, the Macedonian Investment Minister expressed comparable confidence for the AMBO bypass, but also would not reveal the identity of claimed throughput guarantors. Altay said that the official ground-breaking for Samsun-Ceyhan was postponed from March to April in order to schedule participation of the Turkish and Italian Prime Ministers. Recently bringing on former TPAO DG Osman Dinc as new project manager, Calik Enerji is the main sponsor and ENI is the official partner for the Samsun-Ceyhan "TAPCO" project company. Shell and Indian Oil Company are still "seriously looking". Echoing comments we have heard from other companies and observers, the Chevron rep told us that the presence of a project "sponsor or middle-man" is an impediment to Chevron's participation.

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